2002 Annual Report

Focus

Value

Growth

Morguard
Corporation

Morguard Real Estate Investment Trust

Morguard Investments Limited

Morguard Residential Inc.

Revenue Properties Company Limited

CORPORATE PROFILE

A new listing appeared on the TSX in 2002. "MRC" is the trading symbol for Morguard Corporation (the Company or Morguard), previously known as Acktion Corporation. The name change consolidates the Company with several of its affiliates under the "Morguard" brand, a name which has symbolized excellence in real estate for over 35 years in Canada. Morguard is a major public real estate organization, totally dedicated to ownership, investment, development and management of income producing property.

The interests of the Company and its shareholders are served by four operating entities: Morguard Real Estate Investment Trust (Morguard REIT); Morguard Residential Inc. (previously Goldlist Properties Inc.); Morguard Investments Limited and Revenue Properties Company Limited ("RPCL").

The operating companies are active in commercial and multi-family residential properties. Morguard REIT, a publicly traded closed-end fund has a diversified portfolio of retail, office and industrial properties located across Canada. It appeals to institutional and retail investors seeking stable, tax-deferred yields. Morguard Residential Inc. owns a portfolio of multi-unit residential assets, provides rental services and is active in the development and sale of residential condominiums. Morguard Investments Limited was instrumental in introducing real estate investment to Canadian pension funds. A fully integrated real estate investment, advisory and management company, it manages and develops a national portfolio of retail, industrial, office and multi-family properties on behalf of its Canadian pension funds and institutional investors. Revenue Properties Company Limited, a publicly traded Canadian company, in which Morguard has a significant interest, has a portfolio of office, retail and residential assets, located primarily in Ontario.

The integration of these successful real estate companies creates operating and financing efficiencies, provides a pool of experienced personnel and capitalizes on market opportunities. The most significant benefit is the creation of shareholder value for all stakeholders.

The Valleywoods
ississauga, Ontario

240 Summerlea
Brampton, Ontario

Shoppers Mall
Brandon, Manitoba

CONTENTS

FIVE-YEAR FINANCIAL SUMMARY

(in thousands of dollars except for share amounts and common shares outstanding)

	Year ended December 31, 2002 $	Year ended December 31, 2001 $	Year ended December 31, 2000 $	Year ended December 31, 1999 $	13 months ended December 31, 1998 $
Revenue	**341,304**	321,046	260,387	100,937	56,276
Interest on long-term debt	**60,210**	53,825	45,431	14,793	7,107
Earnings from operations before income taxes and minority interest	**63,798**	75,626	73,724	24,422	19,944
Net earnings for the period	**29,303**	36,332	39,444	22,875	18,229
Funds from operations	**69,815**	113,239	59,621	21,337	38,453
Total assets	**2,078,094**	1,756,520	1,650,931	1,484,953	793,392
Real estate assets	**1,862,722**	1,478,698	1,415,478	1,148,585	364,542
Long-term debt	**1,024,840**	816,340	757,957	635,891	210,406
Shareholders' equity	**436,888**	424,120	405,427	385,648	366,795
Net earnings per common share					
Basic	**2.00**	2.39	2.53	1.41	1.13
Diluted	**1.57**	1.82	2.40	1.31	1.06
Equity per common share	**30.20**	28.56	26.39	23.95	22.55
Common shares outstanding	**14,464,272**	14,850,780	16,103,768	16,103,768	16,264,068

Fifth and Third, Calgary, Alberta

Place Rosemère, Rosemère, Québec

CHAIRMAN'S REPORT TO SHAREHOLDERS

K. (Rai) Sahi

Your company celebrated a major landmark in 2002 by changing its name to Morguard Corporation, now listed as MRC on the TSX. This new identity signifies our consolidation into a significant public real estate company committed to the ownership, investment, development and management of income producing property. The Morguard brand has earned wide respect in the real estate community over the past 35 years and we will continue to build on its reputation with sound corporate governance and investment performance.

Real estate became a favoured commodity in 2002, as investors sought the comfort of asset-based securities with the prospect of steady cash flow and capital preservation in the face of the exodus from equity markets. Canada has been fortunate to escape the worst of the economic downturn and Morguard was well positioned to capitalize on opportunities presented by market conditions. As a result, our asset base grew to $1.9 billion at year-end, from $1.5 billion in 2001, an increase of 27 percent.

In the third quarter of 2002, we changed our dividend distribution from semi-annual to quarterly. At the same time, due to the success and growth of our cash flow from operations, we increased the total annual dividend by 12 percent, paid quarterly at $ 0.14 per share. Our continuing focus is to create value for our stakeholders and to produce sustainable and growing cash returns. Our activities during the year reflected these goals.

We completed an important strategic step in 2002, with the acquisition of the remaining outstanding shares of Morguard Residential Inc. The company develops, manages, rents and sells multi-family residential properties. Also during the year, we increased our investment in Revenue Properties Company Limited to 76 percent, from 41 percent. Subsequent to year-end, we acquired an additional three percent. This public real estate company owns, develops and manages a portfolio of income-producing properties. We believe that these purchases will make a very positive contribution to the long-term performance of Morguard Corporation.

During 2002, through Morguard REIT, Morguard Residential Inc. and Revenue Properties Company Limited, we invested $231.0 million in new acquisitions, including 13 industrial properties for $70.0 million; five office properties for $143.5 million; and one residential property for $40.4 million. These companies also committed to development projects totalling $119 million. These activities will generate cash flow and value for their business units and will add to the strength of the total portfolio.

The market in 2002 for residential units, both rental and condominium, weakened slightly resulting in increased vacancies and slower condominium sales. The performance of the retail and industrial markets, however, remained strong, and our retail and industrial vacancies were in line with market comparables. Our office portfolio experienced an increase in vacancies, reflecting overall leasing market conditions that were adversely affected by the economic slowdown which forced many companies to reduce operations or delay expansion plans. On a positive note, there has been very little new office product introduced to the market, which should keep supply and demand reasonably balanced going forward. As the economy improves, we

...our asset base grew to $1.9 billion at year-end, from $1.5 billion in 2001, an increase of 27 percent.

Our goal is to maximize cash flow and long-term asset values on behalf of our stakeholders...

anticipate that vacancies will gradually decrease as will pressure on rental rates. Our strategy in this sector remains focused on buildings with long-term leases to strong credit tenants. Additionally, our long-held strategy of both geographic and product diversification, which minimizes the effect of negative performance in a particular product category or region, will continue to serve shareholders well.

Morguard conducts its business under two operating categories: real estate ownership and real estate management services. This enables us to maximize our resources and clearly define our goals and performance. For year-end December 31, 2002, our income from real estate ownership increased by 12 percent to $269.6 million. Net earnings for the period from our management services increased by 49 percent to $14.9 million. Consolidated net earnings for the period totalled $29.3 million, $2.00 per share, compared to $36.3 million, $2.39 per share, in 2001. This decline is the result of non-recurring items that occurred during the two years.

We continued to maintain a strong balance sheet during 2002. Our debt to equity ratio was 2.6 to 1. Our weighted average rate of interest was 6.8 percent on long-term debt, with a weighted average maturity of 5.4 years. Over the year, the book value per common share increased 6.0 percent to $30.20.

The real estate market in Canada continues to be active despite the uncertain economic environment. While vacancies have increased, we expect that occupancy will improve as the economy revives. Our national scope will permit us to identify new acquisitions in the market and to capitalize on value creation through development and redevelopment opportunities within the existing portfolio. Our goal is to maximize cash flow and long-term asset values on behalf of our stakeholders and we are confident that these objectives will be met.

I am pleased to announce that Mr. Mark M. Tanz, the founder of Revenue Properties, has accepted our invitation to stand for election as a Director of your company at our 2003 Annual Meeting. Mr. Tanz is a very knowledgeable and experienced real estate executive, and we look forward to his active participation on the Board.

200 Yorkland Boulevard, Toronto, Ontario

The success of any business enterprise depends on the ability and commitment of its management and staff. We are fortunate to have a highly skilled and motivated team at Morguard and its subsidiaries and on behalf of the Board of Directors I extend our sincere appreciation for their achievements and performance during the past year.

I would also like to thank the shareholders for their continued support and to give our assurance that we are dedicated to maximizing returns on their investments commensurate with a disciplined approach to market realities.

K. (Rai) Sahi
Chairman and Chief Executive Officer
Morguard Corporation

Morguard Real Estate Investment Trust

Owned 50.2 percent by Morguard Corporation

The REIT is a publicly traded closed-end real estate investment trust. Its trading symbol on the TSX is MRT.UN. The objective of the REIT is to provide investors with a high cash, sustainable yield which is tax-deferred. This is achieved by the continual development and management of a portfolio of income-producing properties which are diversified by product type and location. The portfolio totals 10.3 million square feet. Office properties account for 24 percent of the portfolio, retail properties 49 percent and industrial 27 percent. The assets are located across Canada. At year-end December 31, 2002, the REIT`s assets totalled $1.2 billion and recurring distributable income was $39.7 million.

Shoppers Mall, Brandon, Manitoba

Morguard
Real Estate Investment Trust

Morguard Residential Inc.

Owned 100 percent by Morguard Corporation

Morguard Residential`s mandate is to create cash flow and value by the development, management, rental and sale of multi-unit residential properties. The company has a portfolio of 18 multi-unit residential buildings, containing approximately 6,100 suites, located primarily in the Greater Toronto Area. It develops both residential condominium properties and multi-residential rental properties and is developing a 292 unit building in downtown Toronto. At year-end December 31, 2002, the company's assets totalled $431.3 million, which generated funds from operations of $19.5 million.

Margaret Place, Kitchener, Ontario

Morguard
Residential Inc.

Morguard Investments Limited

Owned 100 percent by Morguard Corporation

Morguard Investments is one of Canada's most respected real estate advisors and managers. The company pioneered the creation of real estate investment vehicles for Canadian pension funds. Today, as a fully integrated real estate company, it manages Pensionfund Realty, a privately held real estate company owned by 24 of Canada's largest pension funds. It also provides property management services to Morguard REIT. Morguard has assets of $3.6 billion under its management. Through its regional offices, it looks after a diversified portfolio of office, retail, industrial and multi-residential properties totalling 36.5 million square feet, distributed across Canada.

Morguard
Investments Limited

Southland Plaza, Calgary, Alberta

Revenue Properties Company Limited

Owned 79.8 percent by Morguard Corporation

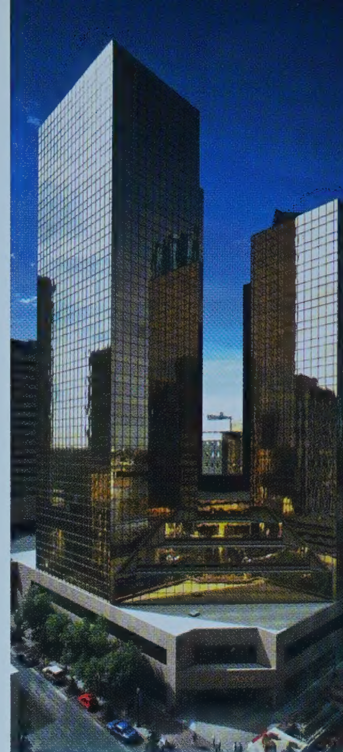
Revenue Properties is a public real estate operating company which owns, develops and manages a portfolio of income-producing assets. Its trading symbol on the TSX is RPC. Its properties are primarily shopping centres and multi-family residential buildings, most of which are located in Ontario. In 2002, it diversified its portfolio with the acquisition of two Class A office properties in Mississauga, Ontario. Its portfolio includes 1.4 million square feet of retail space, 320,000 square feet of office space and 2,101 residential units. At year-end, December 31, 2002, the company's assets totalled $213.0 million; funds from operations was $37.4 million, or $0.32 per share.

rpc

The Colonnade, Toronto, Ontario

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION



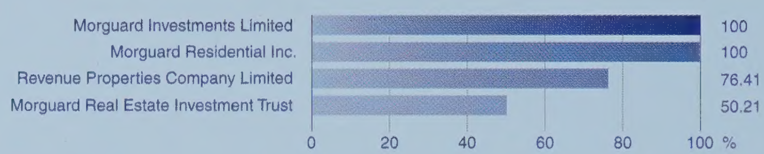
Scotia Place, Edmonton, Alberta

Management's Discussion and Analysis of results of operations and financial condition should be read in conjunction with Morguard Corporation's (formerly Acktion Corporation) audited financial statements for the years ended December 31, 2002 and 2001 and the accompanying notes.

Morguard Corporation's financial results consolidate the operations of Morguard Residential Inc. (formerly Goldist Properties Inc. "Morguard Residential"), Morguard Real Estate Investment Trust, ("Morguard REIT") Revenue Properties Company Limited ("Revenue Properties") and Morguard Investments Limited ("MIL"). Revenue Properties was accounted for on an equity basis until July 31, 2002 and for all of 2001. The Company's investment in MFP Financial Services Ltd. ("MFP") is accounted for on an equity basis in both years.

St. Laurent Centre, Ottawa, Ontario

Morguard's ownership in its core assets, December 31, 2002



CORPORATE MANDATE

...the Company manages a commercial portfolio of 36.5 million square feet...

Morguard Corporation ("Morguard" or "the Company") is a publicly traded real estate company listed on the Toronto Stock Exchange (TSX) under the symbol MRC. The Company is focused on ownership, management and development of both commercial and multi-residential assets. Morguard owns a diversified portfolio of office, industrial, retail and multi-residential properties through three core investments: Morguard REIT, Morguard Residential and Revenue Properties. These assets are located in major centres across Canada. The total portfolio includes 13.8 million square feet of commercial space and more than 6,100 residential suites.

The Company also provides real estate management services to Canadian institutional investors and private individuals. Services include acquisitions, developments, dispositions, leasing, performance measurement and asset and property management. On behalf of third parties, the Company manages a commercial portfolio of 36.5 million square feet, including Morguard REIT, and a multi-family residential portfolio of approximately 3,000 suites.

BUSINESS STRATEGY

This strategy has accomplished Morguard's goal of becoming a major presence in the Canadian real estate market.

Morguard's strategy has been to acquire and develop a diversified portfolio of commercial and multi-residential real estate assets located across Canada. In order to accumulate a significant portfolio, in a timely manner, investments in a number of real estate companies were made between 1997 and 1999. Morguard has since consolidated these positions into four entities and appointed experienced management to operate the businesses. This strategy has accomplished Morguard`s goal of becoming a major presence in the Canadian real estate market. It has also produced operating efficiencies and synergies. The result is sustainable cash returns and enhanced long-term value for its shareholders.

SIGNIFICANT TRANSACTIONS & EVENTS

During the year, a number of significant transactions and events occurred:

New Corporate Identity During 2002, the Company changed its name from Acktion Corporation to Morguard Corporation. It is the Company's intention to grow its business under the Morguard brand, a widely recognized and respected name in the Canadian real estate industry.

Privatization of Morguard Residential In the first quarter of 2002, the Company acquired the balance of the outstanding shares of Morguard Residential for $50.6 million.

Control of Revenue Properties In the third quarter of 2002, an additional 23 million shares of Revenue Properties were acquired for $38.1 million, increasing Morguard's investment to 76.4 percent. Subsequent to the year-end, an additional 2.3 million shares were purchased for $3.8 million, increasing ownership to 79.8 percent.

Increase in Company Dividend In 2000, Morguard introduced an annual dividend of $0.50 per share, payable at $0.25 per share semi-annually to shareholders. During 2002, the Board of Directors increased the dividend by 12 percent to an annual dividend of $0.56 per share, paid quarterly.

Development During 2002, the Company initiated two development projects:

Construction started on a 252,000 square foot office tower in downtown Ottawa. The building has been pre-leased by the Department of Public Works Canada and the Canadian Broadcasting Corporation. Construction is scheduled for completion in 2004.

Land was acquired for the development of a 292 suite multi-residential building located in downtown Toronto with the commencement of construction scheduled for 2003. The building is targeted to up-scale renters and is scheduled for completion in 2005.

Construction started on a 252,000 square foot office tower in downtown Ottawa.

Land was acquired for the development of a 292 suite multi-residential building located in downtown Toronto...

REVIEW OF FINANCIAL RESULTS

FUNDS FROM OPERATIONS

Funds from operations ("FFO") is calculated as net earnings adjusted for non-cash items, gains/losses on sales and write downs, earnings of equity accounted investments, cost of early settlement of mortgages and distributions from equity accounted investments. FFO totals $69.8 million or $4.76 per share compared to $113.2 million or $7.63 per share in the prior year.

FFO in 2001 reflects a special dividend of $39 million paid by Revenue Properties to Morguard. This increases funds from operations in 2001 by $2.63 per share. Morguard's share of consolidated 2002 FFO, after adjusting for the minority interest of Morguard REIT and Revenue Properties, totals $45.2 million or $3.08 per share.

EARNINGS

Net earnings for 2002 total $29.3 million, or $2.00 per share, compared to $36.3 million, or $2.39 per share, in 2001.

Management separates its business activities into two segments, real estate operations and management and other operations. Real estate operations are defined to include ownership and development of real estate assets. Management and other operations include property management, equipment leasing and distribution. By separating these two segments, management is better able to evaluate the performance of its owned assets and to more accurately assess the return on its real estate management business.

The Valleywoods, Mississauga, Ontar

REAL ESTATE OWNERSHIP

Cambridge Centre, Cambridge, Ontario

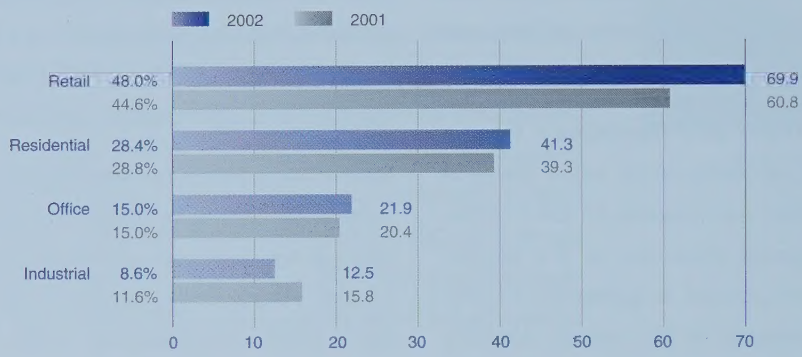
Income from properties increased to $269.6 million from $240.8 million in 2001...

OPERATING RESULTS

Income from properties increased to $269.6 million from $240.8 million in 2001, an increase of $28.8 million or 12.0 percent. Net property income, defined as income from properties less the property operating expenses, totalled $145.6 million compared to $136.4 million in 2001. The net increase in net property income totalled $9.1 million, with retail increasing by $8.3 million and industrial declining by $3.3 million.

NET PROPERTY INCOME

The increase in net property income is reconciled as follows:



(000's)	2002 $	2001 $
Same property income	**131,618**	132,745
Net property income from acquired properties	**13,341**	-
Net property income from sold properties	**673**	3,604
Net property income	**145,632**	136,349

Properties acquired during 2002 contributed an additional $13.3 million in net property income.

Net property income declined 0.8 percent on a stable portfolio due to higher vacancies in the office and industrial segments. Properties acquired during 2002 contributed an additional $13.3 million in net property income. Included, as acquired properties, is the net property income from Revenue Properties that was consolidated into the 2002 results.

REAL ESTATE MANAGEMENT SERVICES

Through MIL and Morguard Residential, Morguard manages a portfolio of office, industrial, retail and residential properties for institutional and other investors. Fees are earned for the following services: asset management, property management, new business, leasing, acquisitions and dispositions. Fee income from real estate management totalled $37.7 million and accounts for 11.0 percent of total revenue. Net earnings before taxes for the year totalled $14.9 million in 2002, compared to $10.0 million in 2001.

Centre de la Cite Pointe Claire, Pointe Claire, Quebec

SALES OF CONDOMINIUMS AND PRODUCTS

Sales of condominiums and products totalled $34.0 million in 2002. The decrease of $12.6 million relates to condominium sales of $22.0 million in 2002 compared to $40.3 million in 2001.

EQUITY ACCOUNTED INVESTMENTS

In 2002, earnings from equity accounted investments totalled $15.0 million, compared to $15.8 million in the prior year. Prior to consolidating Revenue Properties at July 31, 2002, Morguard recorded income of $12.8 million and for MFP recorded $2.3 million. In 2001, income of $16.2 million was recorded from Revenue Properties and a loss of $0.6 million from MFP.

During the year, Morguard recorded $9.2 million in net gains, compared to $4.4 million in 2001.

GAINS ON SALES

During the year, Morguard recorded $9.2 million in net gains, compared to $4.4 million in 2001. A gain of $10.2 million was the result of property sales, recorded primarily by Morguard REIT and Revenue Properties. A loss of $1.0 million was realized on two financial transactions recorded during the year.

WRITE DOWN OF ASSETS AND INVESTMENTS

The Company recorded a $21.3 million write down of assets and investments in 2002. Morguard has decided that the financial services business no longer fits into the context of the Morguard strategic plan and should be sold when value can be realized. As a result, a $17.6 million write down was recorded on the Company's investment in MFP. Morguard REIT recorded a $3.7 million writedown on a property held for sale.

FINANCIAL CONDITION

ASSETS

Consolidated assets increased by 18.3 percent to $2,077 million. Increases in real estate assets, and other assets, offset by a decline in investments and amounts receivables, contributed significantly to the $320.6 million increase.

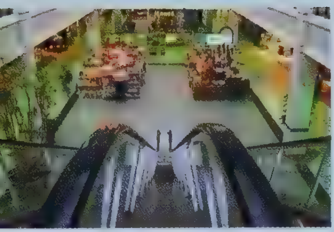
77 City Centre Drive
Mississauga, Ontario

REAL ESTATE ASSETS

Real estate operations account for 96.9 percent of the Company's total assets. Consolidated real estate assets total $1,863 million compared to $1,479 million at December 31, 2001. Real estate assets include revenue-producing properties of $1,812 million, properties under development of $45.6 million and properties held for sale of $5.3 million.

(in millions of $)	Revenue Producing Properties	Properties Under Development	Properties Held For Sale	**Total 2002**	Total 2001
Morguard REIT	1,106	9.5	-	**1,116**	972
Morguard Residential	441	13.6	5.4	**460**	396
Revenue Properties	158	6.8	-	**165**	-
Other	106	15.7	-	**122**	111
Total	1,812	45.6	5.4	**1,863**	1,479

Consolidated assets increased by 18.3 percent to $2,077 million.



Bramalea City Centre, Brampton, Ontario

Revenue-producing properties have increased $416.1 million...

Revenue Producing Properties Revenue-producing properties have increased $416.1 million due to acquisitions by Morguard REIT and Morguard Residential, capital expenditures and the consolidation of Revenue Properties.

Morguard REIT acquired two office buildings located in British Columbia for $65.6 million. The buildings are leased to the British Columbia government for a 15-year term. Morguard REIT also acquired a portfolio of industrial properties for $70.0 million. During the year, portfolio renovation and development costs totalled $44.8 million. Real estate assets were reduced by dispositions of $29.7 million.

Morguard Residential's real estate assets increased by $65.6 million due to the acquisition of a Toronto property for $40.4 million and $10.7 million in capital improvements.

The consolidation of Revenue Properties into the 2002 results has increased revenue-producing properties by $165.0 million.

Properties Under Development Properties under development totalled $45.6 million in 2002 compared to $77.5 million in 2001.

Morguard REIT has five sites for future development. Properties under development have declined from 2001 due to the completion of development projects at Cambridge Shopping Centre, St. Laurent Shopping Centre and Red Deer Shopping Centre.

Morguard Residential has four sites for future rental or condominium developments. The decline from 2001 is due to the completion and sale of condominium suites.

Morguard is developing the CBC building, a 252,000 square foot office tower in downtown Ottawa.

OTHER ASSETS INCLUDING GOODWILL

Other assets including goodwill total $105.1 million, an increase of $30.6 million. Included are deferred leasing and financing costs, restricted cash balances, the accrued benefit asset, inventory, recoverable repair costs and prepaid expenses. Deferred leasing costs have increased $20.9 million, prepaid expenses have increased $7.2 million and recoverable repair costs have increased $2.1 million. These increases are due primarily to the consolidation of Revenue Properties. There was no change recorded in goodwill during 2002.

INVESTMENTS

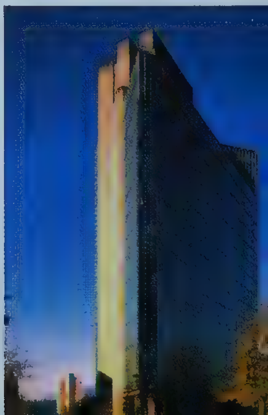
Consolidated investments at year-end were $51.8 million, compared to $118.5 million in 2001. The decrease in 2002 results from Revenue Properties redeeming for cancellation its 7.5%, 2003 convertible debentures, the investment in Revenue Properties common shares and convertible debentures being consolidated into Morguard's results and the $17.6 million write down of the investment in MFP.

AMOUNTS RECEIVABLE

The balance at December 31, 2002 totals $23.6 million compared to $56.5 million in 2001. The decline is the result of amounts receivable on sales of condominium units declining from $39.1 million in 2001 to nil.

The Holt Renfrew Centre, Toronto, Ontario

1500 West Georgia Street
Vancouver, British Columbia



LIABILITIES

MORTGAGES AND DEBENTURES PAYABLE

All mortgage debt is secured against specific assets held by Morguard REIT, Morguard Residential and various single purpose companies. Mortgages and debentures payable total $975.8 million, an increase of $159.5 million. Mortgages payable in Morguard REIT and Morguard Residential have increased by $57.5 million and $21.7 million respectively. The consolidation of Revenue Properties has increased mortgages payable by $89.1 million. As at December 31, 2002, the weighted average interest rate was 6.79 percent with a weighted average maturity of 5.4 years.

The Mall at Lawson Heights
Saskatoon, Saskatchewan

BANK INDEBTEDNESS

Morguard and its operating companies have credit and operating facilities totalling $188.9 million, of which $137.3 million had been borrowed against these facilities. Certain portfolio investments, accounts receivable and capital assets have been pledged as collateral. The Company is in compliance with all covenants and undertakings.

CONSTRUCTION FINANCING

A credit facility for construction financing of $45.0 million is available for the completion of an Ottawa office tower under development. The loan is due and payable in February 2005. The Company has drawn $5.0 million under this facility at year-end.

Morguard Residential has negotiated a $44.0 million construction loan to fund the development of a 292 suite residential building in downtown Toronto. No monies were drawn at year-end.

LONG-TERM NOTES PAYABLE

The Company issued two series of senior notes during the year. In February 2002, the Company issued a $25.0 million senior note bearing an interest rate of 6.0 percent as consideration to acquire the remaining outstanding shares of Morguard Residential. The note is interest only, maturing in February 2006. In July 2002, Morguard issued a second senior note for $26.0 million, bearing an interest rate of 6.0 percent and amortized over three years. The note was issued as part of the consideration to acquire an additional 23 million shares in Revenue Properties.

Manors of Brandywine, Toronto, Ontario

SHAREHOLDERS' EQUITY

Consolidated shareholders' equity on December 31, 2002 totalled $436.9 million or $30.20 per share, compared to $424.1 million, or $28.56 per share, for the year ended 2001.

During the year, the Company changed its dividend policy from a semi-annual to a quarterly payment. In addition, the annual dividend was increased 12 percent, from $0.50 to $0.56 per share. Dividends totalling $9.6 million were declared during 2002. The Company offers a dividend reinvestment plan to its shareholders to permit the purchase of additional shares at a five percent discount to the recent trading price. Morguard issued 14,692 shares under the plan in 2002.

Morguard has the right under a normal course issuer bid that expires September 19, 2003 to purchase up to 719,309 common shares for cancellation. The Company purchased 523,500 of its shares under the current and previous plan for $9.7 million at a weighted average cost of $18.61 per share.

...the annual dividend was increased 12 percent, from $0.50 to $0.56 per share.

LIQUIDITY

During 2002, the Company generated $69.8 million in funds from operations...

Given the quality and diversification of its real estate portfolio, conservative financing structure and the cash generated from operations, sufficient capital is available to execute the Company's strategic plan and finance continued growth. During 2002, the Company generated $69.8 million in funds from operations and ended the year with cash and cash equivalents of $10.9 million. Cash distributions from the operating subsidiaries and long-term investments totalled $33.4 million. These funds have been used to pay corporate overhead, service corporate debt, pay dividends and to re-invest in the business.

Morguard and its subsidiaries maintain cash, liquid assets and credit facilities to ensure that all commitments can be met and funds are available to capitalize on opportunities that will expand their businesses. Operating lines total $188.9 million, of which $51.6 million remained unused at year-end.

The Company has entered into various agreements for the purchase and development of properties. Should all conditions be met, future commitments in the next 12 months are estimated at $44.0 million. Financing arrangements are in place prior to committing to an acquisition or commencing a development.

On February 13, 2003, Morguard REIT reached an agreement to acquire a portfolio of 11 retail, office and industrial properties...

SUBSEQUENT TRANSACTIONS

On February 13, 2003, Morguard REIT reached an agreement to acquire a portfolio of 11 retail, office and industrial properties for $108 million, including the assumption of mortgages totalling $71 million. The mortgages have an average interest rate of 7.4 percent with an average remaining term of nine years. The purchase closed in March 2003.

On March 14, 2003, Morguard acquired an additional 2.3 million shares of Revenue Properties in a private transaction for $3.8 million. The purchase price will be funded through the issuance of a $2.6 million promissory note bearing interest at a rate of 6 percent per annum compounded semi-annually and amortized over three years.

RISK AND UNCERTAINTIES

REAL ESTATE INDUSTRY

As the economy enters its third year of slow growth, the real estate industry is seeing occupancy rate declines in certain markets and product type. In order to mitigate the impact of an economic slow down on its portfolio, management must identify business risks associated with real estate and mitigate their affect. These risks, and the strategies the Company uses to reduce their potential impact, are discussed in the following paragraphs:

OPERATING RISK

St. Laurent Business Centre
Ottawa, Ontario

The major operating risk affecting financial performance is the ability of Morguard to achieve stable or increasing average rental rates combined with acceptable occupancy levels. To achieve this, the Company focuses on tenant retention and the marketing of vacant space through both the brokerage community and internal resources. Improvement in tenant retention and the lease-up of vacant space maximizes property income.

In 2002, the Company changed its name to Morguard, a brand name well recognized in the real estate community. With well-located and professionally managed properties, management seeks to increase tenant loyalty and have Morguard become the landlord of choice.

Place Rosemère, Rosemère, Québec

Through product and geographic diversification, the Company further decreases its operating risk. The Company's commercial portfolio includes office, industrial and retail product located in the major urban centres across Canada. The Company's multi-residential portfolio is primarily located in southern Ontario. By diversifying, the impact of negative economic conditions on the portfolio is mitigated since markets and product type are impacted differently. The Company has staggered lease maturities, minimizing increases in vacancy rates in any particular year. The Company has also diversified its tenancy, with the largest tenant accounting for less than 1.0 percent of revenue.

Through product and geographic diversification, the Company further decreases its operating risk.

DEVELOPMENT RISK

The Company's development operations seek to mitigate operating risk by prudent selection of development sites, securing financing prior to commencing the project, not land banking and ensuring an adequate level of leasing or condo sales prior to commencing construction.

Leaside Towers, Toronto, Ontario

ENVIRONMENTAL RISK

As an owner and manager of real property, the Company is subject to various laws relating to environmental matters. These laws impose liability for the cost of removal and remediation of certain hazardous materials released or deposited on properties owned or managed by the Company or on adjacent properties. As a result, Phase 1 audits are completed prior to the acquisition of any property. Once acquired, environmental assessment programs ensure continued compliance with all laws and regulations governing environmental and related matters. Morguard's management, and the management of each of the operating companies, are responsible for ensuring compliance with environmental legislation and are required to report quarterly to their respective board of directors. The Company has certain properties that contain hazardous substances and management has concluded that the necessary remediation costs will not have a material impact on its operations. The Company has obtained environmental insurance on certain assets to further minimize risk.

The Company has obtained environmental insurance on certain assets to further minimize risk.

FINANCING RISK

Leverage enables a company to enhance its return on shareholders' equity; however, fluctuations in interest rates can negatively effect a business' ability to meet its financial obligations. This risk is minimized by ensuring that debt maturities are staggered over a number of years and by negotiating fixed interest rates on a significant portion of the debt. This strategy helps protect the Company from significant increases in interest rates. However, should interest rates decline, further benefits may only be achieved at the cost of penalties to terminate existing arrangements. As at December 31, 2002, the Company had 88.2 percent of its financing with fixed interest rates with a weighted average of 6.79 percent. As well, only 58.1 percent of the outstanding term debt matures over the next five years, with 2007 having the greatest maturity at 19.4 percent.

OUTLOOK

Morguard's commercial portfolio will continue to perform positively, the result of its diversified, high quality portfolio.

Property values have appreciated significantly over the past five years, the result of strong investor interest, low interest rates and limited supply of product. In 2003, management expects to see some softness in real estate fundamentals. Capital is plentiful for both commercial and multi-residential real estate. However, any sign of a sustainable recovery in the equity markets could see monies exit real estate to seek higher returns. Interest rates are at historical lows and are forecast to increase in the near term. Increases in interest rates will have a negative impact on real estate returns.

The Centre at Circle and Eighth
Saskatoon, Saskatchewan

Downward pressure on both occupancy levels and rental rates are expected to continue in certain sectors and geographic markets. Corporate profits have yet to recover and business spending has stalled. As corporations continue to reduce overhead, there has been no growth in the demand for commercial space. While vacancies are increasing, the amount of sublet space also has risen. Management believes that Morguard's commercial portfolio will continue to perform positively, the result of its diversified, high quality portfolio.

The multi-residential portfolio continues to record increased cash flow, but not at the same rate as in prior years. Capital enhancement programs commenced in the mid 90's are nearing their completion. The majority of Morguard's portfolio is located in Toronto, where the market vacancy has increased and is slightly under five percent. Continued pressure on vacancies is anticipated, especially in the Greater Toronto Area as condominiums projects are completed over the next 24 months and compete in the high-end rental market. Despite the market weakness, the acquisition of institutional quality multi-residential properties is difficult as there is limited product for sale and pricing is very aggressive.

The real estate market will experience short and medium term volatility. In the long-term, real estate is expected to provide shareholders with an above average return. The Company's investment activity will focus on quality properties with solid tenant rosters and little near-term lease expiry. The Company believes it is well positioned to acquire additional assets should prices decline.

This annual report may contain forward-looking statements that involve a number of risks and uncertainties including statements regarding the outlook for the Company's business and results of operations, that by nature these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Management Discussion and Analysis of this report and as discussed in public disclosure documents filed with the Canadian regulatory authorities. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Cosmopolitan Corporate Centre, Toronto, Ontario

Tomken Place, Toronto, Ontario

MANAGEMENT'S REPORTING RESPONSIBILITY

Alberta Treasury, Calgary, Alberta

The accompanying consolidated financial statements of Morguard Corporation and it's subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with accounting principles generally accepted in Canada. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the Company and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Ernst & Young LLP, Chartered Accountants, and their report is presented below.

K. (Rai) Sahi
Chairman and Chief Executive Officer

Bart Munn
Vice-President and Chief Financial Officer

AUDITORS' REPORT

Town Centre, Toronto, Ontario

TO THE SHAREHOLDERS OF MORGUARD CORPORATION

We have audited the consolidated balance sheets of Morguard Corporation (formerly Acktion Corporation) as at December 31, 2002 and 2001 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
February 27, 2003

Ernst & Young LLP

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars) As at December 31	2002 $	2001 $
ASSETS		
Real estate assets, net (note 5)	1,862,722	1,478,698
Other assets including goodwill (note 7)	105,134	74,553
Investments (notes 4 and 6)	51,797	118,547
Amounts receivable (notes 8 and 20)	23,573	56,521
Future income tax assets (note 16)	10,931	6,239
Cash and cash equivalents	10,907	11,659
Income and other taxes recoverable	9,034	6,891
Capital assets, net (note 9)	3,032	3,412
	2,077,130	1,756,520
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Mortgages and debentures payable (note 10)	975,833	816,340
Bank indebtedness and loans (note 11)	137,267	126,953
Accounts payable and accrued liabilities	82,890	71,020
Long-term notes payable (note 4)	49,007	-
Future income tax liabilities (note 16)	54,463	43,237
Construction financing on properties under development and for sale (note 12)	5,478	28,092
Total liabilities	1,304,938	1,085,642
Minority interest (notes 4 and 13)	335,304	246,758
Commitments and contingencies (note 19)		
Shareholders' equity		
Share capital (note 14)	122,965	125,975
Retained earnings	312,319	298,145
Cumulative translation adjustment (note 23 (c))	1,604	-
Total shareholders' equity	436,888	424,120
	2,077,130	1,756,520

See accompanying notes

On behalf of the Board:

K. (Rai) Sahi
Director

Wayne M.E. McLeod
Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(in thousands of dollars except for per share amounts)

Years ended December 31	2002 $	2001 $
REVENUE		
Income from properties	269,647	240,839
Fees and other income (note 20 (d))	37,706	33,664
Sales of condominiums and products	33,951	46,543
	341,304	321,046
EXPENSES		
Property operating	124,014	104,490
Property management and administration	45,022	42,324
Cost of sales	30,198	43,004
	199,234	189,818
Earnings from operations before the undernoted	142,070	131,228
Amortization	14,130	13,985
Interest	4,406	7,432
Interest on mortgages and debentures	60,210	53,825
	78,746	75,242
Earnings before other income (expense), income taxes and minority interest	63,324	55,986
Other income (expense)		
Cost of early settlement of mortgages	(258)	(3,206)
Net gain on sale of assets and investments (notes 5 and 6)	9,177	4,444
Earnings of equity-accounted investments (note 6)	15,016	15,784
Other (note 19 (b]]	(2,144)	2,618
Write-down of assets and investments (notes 5 and 6)	(21,317)	-
	474	19,640
Earnings from operations before income taxes and minority interest	63,798	75,626
Provision for (recovery of) income taxes (note 16)		
Current	7,702	4,774
Future	(109)	10,774
	7,593	15,548
Minority interest	(26,902)	(23,746)
Net earnings for the year	29,303	36,332
Retained earnings, beginning of year	298,145	275,414
Dividends	(9,842)	(7,589)
Excess of purchase price of common shares over average carrying value	(5,287)	(6,012)
Retained earnings, end of year	312,319	298,145
Net earnings per common share (note 15)		
Basic	$2.00	$2.39
Diluted	$1.57	$1.82

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars) Years ended December 31	2002 $	2001 $
OPERATING ACTIVITIES		
Net earnings for the year	29,303	36,332
Items not affecting cash		
Minority interest	26,902	23,746
Amortization	14,130	13,985
Future income taxes	(109)	10,774
Net gain on sale of assets and investments	(9,177)	(4,444)
Write-down of assets and investments	21,317	-
Earnings of equity-accounted investments	(15,016)	(15,784)
Other items	1,167	1,456
Cost of early settlement of mortgages	258	3,206
Distributions from equity-accounted investments	1,040	43,968
Funds from operations	69,815	113,239
Leasing costs	(19,496)	(8,906)
Net change in operating assets and liabilities (note 17(a))	58,878	(15,268)
Cash provided by operating activities	109,197	89,065
FINANCING ACTIVITIES		
Net proceeds from bank indebtedness and loans	10,106	8,891
Proceeds from mortgages	162,993	91,390
Proceeds from construction financing on properties under development	11,506	17,070
Repayment of construction financing on properties under development	(34,120)	(11,594)
Repayment of mortgages and debentures	(131,132)	(67,483)
Subsidiary's cash and cash equivalents at date of acquisition	30,368	-
Repayment of long-term note payable	(1,995)	-
Proceeds on issue of common shares	1,170	1,049
Proceeds on issue of common shares of subsidiary company	3,340	19,179
Net proceeds on issue of subsidiary convertible debentures	140,633	-
Shares purchased for cancellation	(9,738)	(12,354)
Dividends paid	(9,570)	(6,334)
Distribution to subsidiary unitholders/shareholders	(27,853)	(20,036)
Buy back of subsidiary common shares	-	(41)
Cash provided by financing activities	145,708	19,737
INVESTING ACTIVITIES		
Purchase of real estate and capital assets	(316,639)	(78,350)
Proceeds from sale of assets and investments	99,986	30,911
Purchase of investments	(1,336)	(55,277)
Acquisitions (note 4)	(37,668)	-
Cash used in investing activities	(255,657)	(102,716)
Net (decrease) increase in cash and cash equivalents during the year	(752)	6,086
Cash and cash equivalents, beginning of year	11,659	5,573
Cash and cash equivalents, end of year	10,907	11,659

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

1. NATURE OF OPERATIONS

Morguard Corporation (formerly Acktion Corporation, the "Company") is a real estate investment company formed under the laws of Canada whose principal activities include property ownership, development and property management services. Property ownership encompasses interests in both commercial and residential real estate. The diverse portfolio of commercial real estate includes retail, office and industrial properties across eight Canadian provinces. Through its residential real estate holdings, the Company, in addition to providing rental services, constructs and sells residential condominiums.

2. CHANGE IN ACCOUNTING POLICIES

Stock-based compensation

Effective January 1, 2002, the Company adopted The Canadian Institute of Chartered Accountants ("CICA") new recommendations under Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". As permitted by the CICA, the Company has applied this change prospectively for new awards granted on or after that date. The Company has chosen to recognize no compensation expense when stock options are granted to employees and directors under stock options plans with no cash settlement features. Any consideration paid by employees or directors on exercise of share options is credited to capital stock. However, direct awards of stock to employees and stock and stock option awards granted to non-employees will be accounted for using the fair value method of accounting for stock-based compensation.

As no stock options were granted in 2002, adoption of the new standard had no impact on the consolidated financial statements of the Company.

Goodwill

In 2002, the Company adopted the CICA's new recommendations under Handbook Section 3062, "Goodwill and Other Intangible Assets". The new rules require non-amortization of existing and future goodwill and intangible assets that meet the criteria for indefinite life and accordingly, the Company ceased recording goodwill amortization effective January 1, 2002. Instead, goodwill is tested for impairment on an annual basis to determine whether the fair value of reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. Any impairment is then recorded as a separate charge against earnings and a reduction of the carrying value of goodwill.

In accordance with the new recommendations, the Company prospectively applied these new recommendations, without restatement of any comparative periods. However, if retroactively applied, net earnings for the year ended December 31, 2001 would have been higher by $1.5 million. Similarly, basic and diluted earnings per common share would each have been approximately $0.09 higher for the year ended December 31, 2001.

The Company has tested for impairment of goodwill and has determined that there is no impairment.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and its accounting policies and standards of financial disclosure are in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries and the Company's proportionate share of the assets, liabilities, revenue and expenses of its co-ownership interests, which include incorporated and unincorporated joint ventures and partnerships, held by certain of the Company's subsidiaries. The Company's principal operating companies and respective ownership interest in each are as follows:

Ownership	2002 %	2001 %
Morguard Investments Limited ("MIL")	**100.00**	100.00
Morguard Residential Inc. (formerly Goldlist Properties Inc., "Residential Inc.")	**100.00**	68.32
Morguard Real Estate Investment Trust ("Morguard REIT")	**50.21**	50.24
Revenue Properties Company Limited ("RPCL")	**76.41**	40.71

All intercompany balances and transactions between subsidiaries of the Company, including any unrealized gains or losses have been eliminated.

The Company accounts for investments in which it exercises significant influence by the equity method. Long-term investments in companies in which the Company does not have significant influence are recorded at cost. When there is a permanent impairment in the value of long-term investments, they are written down to net realizable value.

Use of estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. In determining estimates of net recoverable amounts and net realizable values for its real estate assets, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Real Estate Assets

Revenue producing properties

Revenue producing properties are stated at the lower of cost, net of accumulated amortization, and net recoverable amount. Net recoverable amount is the projected undiscounted net cash flow from use of the property together with residual value. Since this calculation reflects the long-term nature of the investment, the carrying value of the property may, at any given time, exceed its net realizable value.

The sinking fund method of providing amortization is used for revenue producing properties. This method charges the cost of buildings over maximum periods of 40 years for commercial real estate and 50 years for residential real estate in a series of annual installments increasing at the rate of 5% compounded annually.

Included in residential buildings are appliances capitalized and amortized on a 10% straight-line method. Major capital improvements are capitalized and amortized over terms appropriate to the expenditure.

Revenue producing properties include an investment in real estate recorded at cost. This investment represents the Company's interest in a co-ownership venture over which it does not exercise significant influence.

Properties under development and for sale and capitalization of costs

Properties under development and for sale are valued at the lower of cost and net realizable value at the expected time of sale. Net realizable value represents the amount of estimated net sales proceeds, taking into account management's assumptions and projections for the development of the property and market conditions.

The cost of properties under development includes all expenditures incurred in connection with the acquisition, including other direct costs, realty taxes, initial marketing and tenanting of the building to prepare it for its productive use, the applicable portion of general and administrative expenses and interest on debt related to the development.

Deferred expenses

Leasing and financing costs are amortized on a straight-line basis over the terms of the leases or debt to which they relate.

Recoverable repair costs

Major recoverable repair costs of commercial real estate assets are deferred and subsequently recovered from tenants over varying periods of up to 10 years.

Revenue recognition

Income from properties includes rents by tenants under lease agreements, percentage participation rents, property tax and operating cost recoveries, lease cancellation fees, leasing concessions, parking income and incidental income. Percentage participation rent is recognized after the minimum sales level has been achieved in accordance with each lease. All other rental revenue is recognized in accordance with each lease. Revenue from development activities related to commercial real estate is recognized upon the earlier of attaining a break-even point in cash flow after debt servicing or the expiration of a reasonable period of time following substantial completion subject to the time limitation determined at the time of approval of the project. Revenue from development activities related to residential real estate is recognized after an occupancy level of 70% is achieved. Prior to this time, the property is categorized as a development property.

Revenue from the sale of properties is recognized once all significant conditions have been met and collection of the proceeds from sale is reasonably assured. Revenue from land sales are recognized when all material conditions of the related agreement of purchase and sale have been met and at least 15% of the total purchase price has been received. Condominium unit sales are recognized as revenue when the amount due on first closing is received in cash. At that time, the purchaser is entitled to occupancy and undertakes to assume a mortgage for the balance of the purchase price and the vendor undertakes to transfer title on registration under the Condominium Act of the applicable jurisdiction.

Revenue from sales of product and service is recognized when the goods are shipped or the service performed.

Other assets including goodwill

On acquisition, the underlying fair value of net identifiable tangible and intangible assets is determined and goodwill is recognized as the excess of the purchase price over this amount. Goodwill is not amortized. Prior to January 1, 2002, goodwill was amortized on a straight line basis over 20 years.

Goodwill is tested for impairment on an annual basis to determine whether the fair value of the reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. Any impairment is then recorded as a separate charge against earnings and a reduction of the carrying value of goodwill.

Inventories, comprising finished goods, are valued at the lower of average cost or net realizable value.

Portfolio investments

The portfolio of marketable securities is carried at cost plus accrued interest. In the event of a decline in the value of a security that is other than temporary, the investment will be written down to recognize the loss.

Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives using the following rates and methods:

Equipment held for lease	Straight-line over the term of the lease
Equipment	10% - 20% straight-line
Leasehold improvements	Straight-line over the term of the lease

Income taxes

The Company uses the liability method of accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Cash and cash equivalents

Cash equivalents comprise only highly liquid investments with original maturities at the date of purchase of less than ninety days. Cash equivalents are carried at cost, which approximates market value.

Pensions

The Company recognizes the cost of all defined benefit plans in the period in which the employee has rendered services to the entity. The cost and obligations of pensions earned by employees are actuarially determined using the projected benefit method prorated on service and management's best estimate of assumptions of future investment returns, salary changes, retirement ages of employees and expected health care costs. No past service costs have been incurred under this plan. The costs of the plan are then attributed over the period in which the employee becomes entitled to benefits under the plan. For the purpose of calculating the expected return on plan assets those assets are valued at fair value. Actuarial gains and losses would be amortized over the average remaining working period of a company's employees only if, in the aggregate, they are within 10% of the gross pension obligation or total plan assets, whichever is greater ("10% corridor"). Unrecognized actuarial gains or losses in excess of this 10% corridor would be recognized in income immediately.

The discount rate used to calculate pension obligations is determined on the basis of current market rates and re-evaluated at each year end.

Stock-based compensation

No compensation expense is recognized for the plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. Direct awards of stock to employees and stock and stock option awards granted to non-employees are accounted for using the fair value method of accounting for stock-based compensation.

Convertible debentures

The principal amounts of the convertible debentures are convertible into units or shares of respective subsidiaries. Accordingly, the debentures are divided into their liability and minority interest components based on the net present value of the future interest payments at the time of issue. Accretion on the equity component of the debenture is charged to minority interest. Convertible debentures that have the option to settle all interest payments in subsidiary units are classified as minority interest.

Foreign exchange

Assets and liabilities of foreign operations are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the year. The Company's investments in foreign operations are considered to be self-sustaining.

On December 31, 2002, the sale of substantially all the foreign operations was completed and effective January 1, 2003, the remaining foreign assets will be accounted for as integrated operations.

Earnings per share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding in each respective period. The Company uses the treasury stock method for the calculation of the dilutive effect of stock options and warrants. Diluted earnings per share is calculated by dividing net earnings, adjusted for the dilutive effect of securities in the Company's subsidiaries, by the weighted average diluted shares outstanding.

4. ACQUISITIONS

On July 31, 2002, the Company acquired an additional 23 million common shares of RPCL to increase its ownership in RPCL to 76.42% and gained control of RPCL (note 6). The purchase price of this additional interest was $38.1 million and was funded through the issuance of a senior note of $26 million, bearing an interest rate of 6% per annum compounded semi-annually, payable in equal quarterly installments of $2.4 million and fully amortized over a term of 3 years, and cash of $12.1 million. The total cost of these acquisitions was $88.8 million. The acquisition was accounted for as a purchase and earnings of RPCL have been included in the consolidated statements of earnings and retained earnings from the date of acquisition. Subsequent to year-end, the Company increased its ownership in RPCL (note 25).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of acquisitions

(in 000's)	2002 $
Fair value of net assets acquired	
Cash and cash equivalents	10,900
Net working capital	4,378
Investments	15,893
Real estate assets	42,991
	74,162
Bank indebtedness and loans	75
Long-term debt	33,588
Future income taxes	2,384
Net assets acquired	38,115
Consideration	
Cash	12,115
Long-term note payable	26,000
Total consideration	38,115

On February 14, 2002, the Company completed the purchase of the remaining common shares of its subsidiary, Residential Inc., resulting in its ownership of 100% of the share capital of Residential Inc. The purchase price of this additional interest was $50.6 million and was funded through issuance of a senior note of $25 million, bearing an interest rate of 6.0% and cash of $25.6 million. The excess of the fair value over the Company's share of the underlying net book value of the assets was $33.1 million and was allocated to real estate assets.

5. REAL ESTATE ASSETS

Real estate assets consist of the following:

			2002			2001
(in 000's)	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Revenue producing properties						
Buildings	1,362,737	34,078	1,328,659	1,028,860	21,300	1,007,560
Land	442,580	-	442,580	350,307	-	350,307
	1,805,317	34,078	1,771,239	1,379,167	21,300	1,357,867
Properties under development	45,560	-	45,560	77,525	-	77,525
Properties held for sale	5,300	-	5,300	5,361	-	5,361
Investment in regional shopping centre, at cost	40,623	-	40,623	37,945	-	37,945
	1,896,800	34,078	1,862,722	1,499,998	21,300	1,478,698

During the year, interest expense of $2.7 million (2001 - $3.5 million) was capitalized to properties under development.

During 2002, the Company sold revenue producing properties and properties held for sale for proceeds of $73.2 million (2001 - $28.5 million) and realized a gain of $10.3 million (2001 - $3.7 million).

Based on an examination of the carrying values and the current market values of two non-core properties that are listed for sale, the Company recorded a write-down in the second quarter of 2002 of those properties in the aggregate amount of $3.7 million.

On October 10, 2001, the Company purchased a 20.7% interest in a regional mall located in the Greater Toronto Area for cash of $15.4 million and assumed a mortgage payable of $22.5 million. This investment is accounted for at cost.

6. INVESTMENTS

Investments consist of the following:

			2002			2001
(in 000's)	Equity-accounted investments $	Other $	Total $	Equity-accounted investments $	Other $	Total $
Portfolio investments	-	29,467	29,467	-	482	482
Convertible debentures						
Revenue Properties Company Limited (note 4)	-	-	-	-	40,657	40,657
Common shares						
MFP Financial Services Limited	22,330	-	22,330	38,388	-	38,388
Revenue Properties Company Limited (note 4)	-	-	-	39,020	-	39,020
	22,330	29,467	51,797	77,408	41,139	118,547

During 2002, the Company sold a portion of portfolio investments acquired on consolidation, for proceeds of $16.6 million (2001 - $1.5 million) and realized no gain or loss (2001 - gain of $343,000).

The portfolio of marketable securities is carried at cost plus accrued interest of $458,000.

The market value of the investments in publicly traded companies at December 31, 2002 was $52.6 million (2001 - $67.1 million).

The investment in common shares of MFP Financial Services Limited and the convertible debentures of RPCL (2001 - certain investments totalling $79.0 million) have been pledged as collateral against the Company's borrowing facilities.

Revenue Properties Company Limited

On January 8, 2001, the Company purchased 20.1 million common shares of RPCL for cash consideration of $53.2 million. The transaction brought the Company's total holdings in RPCL to 40.7%. As a result the Company exercised significant influence over RPCL and accounted for the investment in RPCL using the equity method. Previously, the investment in RPCL was accounted for as a portfolio investment.

During 2002, prior to consolidating RPCL, the Company recorded equity income of $12.8 million (2001 - $16.3 million) and received dividends of $1 million (2001 - $42.1 million).

The Company's investment in convertible debentures of RPCL has been eliminated on consolidation (note 10). Mortgages and debentures payable has been reduced by the liability component and the minority interest has been reduced by the equity component of the debentures owned by the Company.

On January 10, 2002, RPCL called its convertible debentures with a face value of $10.0 million, bearing interest at a rate of 7.5% and maturing October 1, 2003. The Company's carrying value of the debenture was $10.2 million. The Company surrendered the debenture and realized a loss of $246,000.

MFP Financial Services Limited ("MFP")

The Company accounts for its 33.6% (2001 - 31.3%) investment in MFP using the equity method. During 2002, the Company recorded equity income of $2.3 million (2001 - equity loss of $560,000).

In 2001, there were various litigation matters brought against MFP with respect to its lease transactions, which have continued to affect its market value. The Company has recorded a write-down of $17.6 million in the fourth quarter of 2002. As at December 31, 2002, the market value of the Company's investment in shares is $22.3 million (2001 - $27.7 million).

MFP has been approved by the Toronto Stock Exchange to make a normal course issuer bid to purchase up to 460,305 of its common shares. The program expires October 6, 2003.

7. OTHER ASSETS INCLUDING GOODWILL

Other assets including goodwill consists of the following:

(in 000's)	2002 Cost $	2002 Accumulated amortization $	2002 Net book value $	2001 Cost $	2001 Accumulated amortization $	2001 Net book value $
Goodwill	29,045	4,557	24,488	29,045	4,557	24,488
Deferred leasing	44,639	8,140	36,499	19,425	3,794	15,631
Deferred financing	4,796	2,226	2,570	4,519	1,888	2,631
	78,480	14,923	63,557	52,989	10,239	42,750
Restricted cash balances	1,037	-	1,037	2,096	-	2,096
Inventory	1,491	-	1,491	1,675	-	1,675
Recoverable repair costs	15,503	-	15,503	13,421	-	13,421
Prepaid expenses and other	23,546	-	23,546	14,611	-	14,611
	120,057	14,923	105,134	84,792	10,239	74,553

Included in restricted cash balances are term deposits and account balances that are pledged as collateral for letters of credit or held in trust for deposits on sale of condominium units and payment of real estate commissions.

Included in prepaid expenses and other is the accrued pension benefit asset of $6.2 million (note 19).

A subsidiary of the Company has been assessed for $2.1 million by the Canada Customs and Revenue Agency (the "CCRA") for prior year tax liabilities. The Company has filed an objection to the assessment and has paid the amount assessed to the CCRA. The Company believes that the assessment is without merit and that it will ultimately be successful in its defence. Pending resolution, the $2.1 million has been recorded in other assets on the balance sheet. In the event that the CCRA is successful in its claim, a certain portion of this payment will be recorded as a charge to provision for income taxes in the year in which the matter is resolved and the remainder, which would reflect restored loss carryforwards, would be included as a future income tax asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. AMOUNTS RECEIVABLE

Amounts receivable consist of the following:

	2002 $	2001 $
Amounts receivable on sales of condominium units, due on closing	-	39,137
Mortgages receivable	6,346	399
Accounts receivable	17,227	16,985
	23,573	56,521

Mortgages receivable bear interest at rates, which vary from 0% to 8% (weighted average 2.4%), of which $5,163 is repayable before the end of 2003.

9. CAPITAL ASSETS

Capital assets consist of the following:

			2002			2001
		Accumulated	Net book		Accumulated	Net book
	Cost	amortization	value	Cost	amortization	value
(in 000's)	$	$	$	$	$	$
Equipment held for lease	-	-	-	1,020	779	241
Equipment	5,878	3,767	2,111	5,115	2,977	2,138
Leasehold improvements	2,357	1,436	921	2,181	1,148	1,033
	8,235	5,203	3,032	8,316	4,904	3,412

Certain of the Company's capital assets have been pledged as collateral against the Company's borrowing facilities.

During 2002, the Company sold capital assets for proceeds of $177,000 (2001 - $819,000) and realized no gain or loss (2001 - gain of $42,000).

10. MORTGAGES AND DEBENTURES PAYABLE

Mortgages and debentures payable, which are all at fixed rates, are as follows:

(in 000's)	2002 $	2001 $
6.70% redeemable first mortgage bonds (mature October 9, 2007)	108,223	109,723
6.725% redeemable first mortgage bonds (mature April 9, 2008)	50,720	53,220
7.10% redeemable second mortgage bonds (mature October 9, 2007)	19,000	19,000
6.85% first mortgage bonds Series A (mature March 28, 2002)	-	55,000
6.76% first mortgage bonds Series D (mature March 28, 2006)	55,000	-
7.72% first mortgage bonds Series B (mature March 28, 2007)	55,000	55,000
7.51% first mortgage bonds Series C (mature June 14, 2010)	25,000	25,000
6.90% first mortgage bonds Series B (mature May 1, 2018)	40,396	41,280
7.90% debenture (matures October 31, 2005) (a)	25,000	-
7.90% liability component of convertible debenture (matured October 31, 2002) (a)	-	1,868
6.00% liability component of convertible debenture (matures March 1, 2004) (b)	26,466	-
7.00% liability component of convertible debenture (matures December 31, 2006) (c)	11,097	-
Mortgages (d)	559,931	456,249
	975,833	816,340
Estimated fair market value of mortgages and debentures payable	1,009,339	826,949

Substantially all of the Company's real estate assets and related rental revenue have been pledged as collateral for the mortgages and debentures payable.

The aggregate sinking fund obligations and principal repayments of the mortgages and debentures payable on real estate assets in the next five years and thereafter are as follows:

(in 000's)	$
2003	39,001
2004	85,470
2005	101,629
2006	121,903
2007	198,587
Thereafter	429,243
	975,833

(a) 7.9% Debenture

On November 3, 2000, Morguard REIT issued a $25.0 million, 7.9% unsecured convertible debenture as partial consideration for the purchase of real estate assets. The principal amount of the debenture was convertible into units at the option of Morguard REIT on October 31, 2002 at a price per unit equal to 90% of the current market price of the units prevailing on such date; provided, however, that the maximum number of units issuable upon conversion thereof was limited to 9,850,794. Accordingly, the convertible debenture was divided into its liability and equity components. The liability component was calculated using a discount rate of 7.9% on the interest payments to October 31, 2002. The equity component was the difference between the issue amount and the amount recorded as a liability (2001 - $23,640 was allocated to equity). The debenture was not converted on October 31, 2002 and has subsequently been classified as debt. The debenture has a further maturity date of October 31, 2005 with semi-annual interest payments. This debenture can be repaid at any time without penalty or bonus. The equity component was included in minority interest in 2001.

(b) 6.0% Debenture

As of December 31, 2002, RPCL has debentures of US$17.2 million (CDN$27.1 million), bearing interest at 6.0% per annum, payable semi-annually and maturing March 1, 2004. These debentures are unsecured and convertible into common shares of RPCL at a price of US$1.82 per common share at any time prior to the earlier of February 27, 2004 and the last business day immediately preceeding the date specified for redemption. The debentures are redeemable by the Company at any time at par plus accrued and unpaid interest. The equity component of CDN$0.6 million has been included in minority interest.

(c) 7.0% Debenture

As of December 31, 2002, RPCL has debentures of $42.4 million, bearing interest at 7.0% per annum, payable semi-annually and maturing December 31, 2006. These debentures are unsecured and convertible into RPCL common shares at a price of $1.74 per common share at any time prior to the earlier of December 31, 2006 and the last business day immediately preceeding the date specified for redemption.

The debentures will be redeemable at par plus accrued interest but only if the weighted average daily closing price at which the common shares of RPCL have traded on the Toronto Stock Exchange during the 20 consecutive trading days ending not more than five days prior to the date on which notice of redemption is given exceeds: 115% if given on or after January 1, 2003 and on or prior to December 31, 2003; 110% if given on or after January 1, 2004 and on or prior to December 31, 2004; 105% if given on or after January 1, 2005 and on or prior to December 31, 2005; and 100% if given on or after January 1, 2006. The equity component of $31.3 million has been included in minority interest.

(d) Mortgages

Mortgages payable bear interest at rates ranging between 4.5% and 11.5% (2001 - 6.0% and 11.5%) per annum with a weighted average year-end rate of 6.79% (2001 - 6.79%) and mature between 2003 and 2013 with a weighted average term to maturity of 5.4 years (2001 - 5.9 years).

11. BANK INDEBTEDNESS AND LOANS

The Company and its subsidiaries have available credit facilities and operating lines totalling $188.9 million. Marketable securities, accounts receivable, inventory and capital assets have been pledged as collateral on these credit facilities and operating lines. As at December 31, 2002, the Company had borrowed $137.3 million (2001 - $127.0 million) related to these facilities.

Under the terms of its operating lines of credit, the Company is able to make use of Bankers' Acceptances at stamping fees of 175 basis points. As the majority of the bank indebtedness is current, the carrying value of the debt at December 31, 2002 approximates its fair value.

The bank credit agreements include certain restrictive covenants and undertakings by the Company and its subsidiaries. As at December 31, 2002 and 2001, the Company is in compliance with all covenants and undertakings.

12. CONSTRUCTION FINANCING ON PROPERTIES UNDER DEVELOPMENT

The Company has construction financing available of $45 million secured by properties under development which bears an interest rate of the one month average bankers acceptance interest rate plus 1% and maturing February 28, 2005. As at December 31, 2002, the Company has borrowed $5.5 million in construction financing.

In 2001, the Company had construction financing available of $41.2 million secured by properties under development, bearing a weighted average interest rate of 4.9% per annum. This financing had been drawn from available lines of credit established to facilitate the completion of the projects under development and was to be repaid out of the proceeds from sales of condominium units. As at December 31, 2001, the Company had borrowed $28 million in construction financing.

13. MINORITY INTEREST

On February 21, 2002, Morguard REIT entered into an agreement with a syndicate of investment dealers under which the syndicate agreed to purchase $60 million principal amount of 8.5% unsecured convertible subordinated debentures due April 1, 2007. Each debenture is convertible into fully paid units of Morguard REIT at the option of the holder at any time prior to the close of business on the earlier of maturity and the business day immediately preceeding the date fixed for redemption at a conversion price of $9.50 per unit. Morguard REIT has the option to settle all interest and principal payments in units and, as such, the debentures have been classified as minority interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On July 31, 2002, Morguard REIT entered into an agreement with a syndicate of investment dealers under which the syndicate purchased $87 million principal amount of 8.25% unsecured convertible subordinated debentures due November 1, 2007. Each debenture is convertible into fully paid units of Morguard REIT at the option of the holder at any time prior to the close of business on the earlier of maturity and the business day immediately preceeding the date fixed for redemption at a conversion price of $10.00 per unit. Morguard REIT has the option to settle all interest and principal payments in units and, as such, the debentures have been classified as minority interest

Morguard REIT has been approved by the Toronto Stock Exchange to make a normal course issuer bid to purchase up to 2,216,114 of its units. The program expires February 3, 2004.

RPCL has been approved by the Toronto Stock Exchange to make a normal course issuer bid to purchase up to 1,000,000 of its common shares. The program expires August 18, 2003.

14. CAPITAL STOCK

(a) Share capital

Authorized

Unlimited preference shares, no par value, issuable in series

Unlimited common shares, no par value

Issued and fully paid (in 000's)	Number of common shares	$
Balance, December 31, 2000	15,366	130,013
Dividend reinvestment plan	82	1,255
Employee stock options	151	1,049
Shares repurchased through the Company's normal course issuer bid	(748)	(6,342)
Balance, December 31, 2001	14,851	125,975
Dividend reinvestment plan	**15**	**272**
Employee stock options	**122**	**1,170**
Shares repurchased through the Company's normal course issuer bid	**(524)**	**(4,452)**
Balance, December 31, 2002	**14,464**	**122,965**

The Company has been approved by The Toronto Stock Exchange to make a normal course issuer bid to purchase up to 719,309 (2001 - 748,996) common shares. The program expires September 19, 2003 (2001 - September 19, 2002). During 2002, in connection with the current and previous plans, the Company purchased and cancelled 523,500 common shares (2001 - 747,700) for cash consideration of $9.7 million (2001 - $12.4 million).

Prices paid for the repurchased shares ranged between $18.53 to $18.68 (2001 - between $16.48 to $16.75) per share. The average price paid was $18.61 (2001 - $16.52) per share. The excess paid over the average cost per share has been charged to retained earnings.

(b) Stock options

A total of 490,100 stock options (2001 - 400,100) are available for future grants in the employee stock option plan. The options vest 20% on each anniversary from the date of grant.

A summary of the status of the stock option plan as at December 31, 2002 is as follows:

	Number outstanding #	Weighted average price $	Number of exercisable options #
Outstanding at December 31, 2000	1,175,000	12.31	695,000
Granted	100,000	14.80	
Exercised	(150,700)	6.96	
Forfeited	(88,300)	15.51	
Outstanding at December 31, 2001	1,036,000	13.06	661,000
Exercised	**(122,300)**	**9.56**	
Forfeited	**(90,000)**	**15.89**	
Outstanding at December 31, 2002	**823,700**	**13.27**	**604,700**

At December 31, 2002, outstanding options have the following terms:

Common shares to be issued #	Range of exercise prices $	Weighted average price $	Expiry date	Number of exercisable options #	Weighted average price $
10,000	7.88	7.88	2003	10,000	7.88
120,000	11.50 - 14.00	12.54	2004	120,000	12.54
120,000	10.25	10.25	2006	120,000	10.25
132,700	15.60	15.60	2007	132,700	15.60
61,000	15.60 - 16.75	16.14	2008	47,000	16.15
280,000	12.75 - 12.90	12.79	2009	155,000	12.79
100,000	14.80	14.80	2011	20,000	14.80
823,700				604,700	13.10

(c) Warrants

As at December 31, 2002, the Company has 125,000 warrants outstanding. These warrants were issued as part of a financing agreement and expire on July 2, 2004 with an exercise price of approximately $13.00.

15. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

(in 000's)	2002 $	2001 $1
Net income - basic	29,303	36,332
Dilutive effect of subsidiaries convertible debentures, net of income taxes	(5,789)	(8,283)
Net income - diluted	23,514	28,049
Weighted average common shares outstanding - basic	14,663	15,211
Dilutive effect of stock options	341	230
Weighted average common shares outstanding - diluted	15,004	15,441

16. INCOME TAXES

(a) The Company's effective income tax rate is derived as follows:

	2002		2001	
(in 000's)	$	%	$	%
Income taxes at statutory rate	24,498	38.4	31,796	42.0
Non-taxable portion of subsidiary income	(8,595)	(13.5)	(8,803)	(12.0)
Earnings of equity-accounted investments	(5,092)	(8.0)	(6,629)	(9.0)
Non-taxable portion of capital gains	(628)	(1.0)	-	-
Write-down of assets and investments	3,383	5.3	-	-
Large Corporations Tax and other	(5,974)	(9.4)	(816)	(1.0)
	7,593	11.9	15,548	21.0

(b) The details of the provision for income taxes are as follows:

(in 000's)	2002 $	2001 $
Current provision		
Canadian federal taxes	5,437	3,650
Provincial taxes	2,265	1,124
	7,702	4,774
Future provision		
Canadian federal taxes	(81)	7,255
Provincial taxes	(28)	3,519
	(109)	10,774

(c) The components of consolidated future income taxes are as follows:

(in 000's)	2002 $	2001 $
Future income tax liabilities		
Real estate assets	36,120	24,356
Investments	12,605	14,558
Other	5,738	4,323
	54,463	43,237
Future income tax assets		
Non-capital losses benefited	(3,862)	(1,143)
Financing	(5,481)	(3,868)
Other	(1,588)	(1,228)
	(10,931)	(6,239)
	43,532	36,998

(d) The Company has non-capital losses of approximately $22.4 million (2001 - $6.3 million) which may be carried forward and used to reduce taxable income in future years. In addition, subsidiaries have non-capital losses of $21.1 million available in Canada and $31.4 million available in the United Sates (2001 - $32.8 million available in Canada) which have not been recognized in the accompanying consolidated financial statements. The Company has non-capital losses that expire as follows:

(in 000's)	Total	U.S. Losses (in Cdn. $)	Cdn Losses $
2003	987	308	679
2004	474	308	166
2005	319	308	11
2006	409	308	101
2007	341	308	33
Thereafter	19,822	3,979	15,843
	22,352	5,519	16,833

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. STATEMENTS OF CASH FLOWS

(a) Change in operating assets and liabilities

(in 000's)	2002 $	2001 $
Amounts receivable	41,330	(17,812)
Other assets	4,818	5,016
Properties under development and for sale (Residential Inc.)	14,728	12,106
Accounts payable and accrued liabilities	149	(2,652)
Income and other taxes recoverable	(2,143)	(11,926)
Net change in operating assets and liabilities	58,878	(15,268)

(b) Supplemental cash flow information

Interest paid	62,918	65,737
Income taxes paid	8,402	15,115
Mortgages assumed on the acquisition of real estate assets	15,638	34,476
Non-cash dividend issued under dividend reinvestment plan	272	1,255

18. PENSION PLANS

The Company maintains a contributory defined benefit pension plan covering certain of its employees. The plan provides benefits based on length of service and final average earnings. There are only three active members since the majority of members were employed in the Company's industrial products distribution business, which was sold in 1996. The pension obligations and related assets for the former employees remain part of the Company's defined benefit pension plan. The most recent actuarial valuation was as of December 31, 2002.

MIL's pension plan, Morguard Investments Limited Employees' Retirement Plan, is a defined benefit plan, which provides benefits based on years of service, years of contributions and annual earnings. Membership is a requirement after a defined term of employment and age. Funding of the plan is provided by contributions from MIL. Certain employees who commenced employment prior to January 1, 1997 elected to contribute to the plan and receive a higher benefit. The most recent actuarial valuation was as of December 31, 2002.

The cost of benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of compensation increases, retirement ages of employees, future termination levels and expected return on plan assets.

The significant actuarial assumptions adopted in measuring the Company's projected benefit obligations are as follows:

	Company	MIL
Discount rate	6.75%	6.75%
Rate of compensation increase	4.50%	3.00%
Expected return on plan assets	8.50%	8.50%

Information about the Company's defined benefit plans is as follows:

	2002		2001	
(in 000's)	Company $	MIL $	Company $	MIL $
Accrued benefit obligations				
Balance at beginning of year	64,462	13,932	63,452	12,757
Current service cost	65	1,119	59	1,010
Interest cost	4,187	990	4,306	944
Benefits paid	(5,003)	(774)	(5,010)	(564)
Actuarial losses (gains)	33	-	1,655	(215)
Balance at end of year	63,744	15,267	64,462	13,932
Plan assets				
Fair value at beginning of year	66,275	14,443	62,926	15,168
Actual return on plan assets	1,523	300	4,368	(460)
Employer contributions	1,490	-	2,183	-
Employee contributions	-	293	-	299
Benefits paid	(5,003)	(775)	(5,010)	(564)
Fair value at end of year	64,285	12,774	66,275	14,443
Funded status - surplus (deficit)	541	(2,493)	1,813	511
Unamortized net actuarial loss (gain)	139	3,599	(3,857)	1,204
Unamortized transitional asset (obligation)	5,524	(907)	6,076	(1,243)
Accrued benefit asset	6,204	199	4,032	472

	2002		2001	
(in 000's)	Company $	MIL $	Company $	MIL $
Current service cost	65	826	59	711
Interest cost	4,187	990	4,306	944
Expected rate of return on plan assets	(5,484)	(1,207)	(5,272)	(1,278)
Amortization of transitional obligation (asset)	552	(336)	552	(336)
Net benefit plan (income) expense	(680)	273	(355)	41

19. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Future minimum annual rental payments for office premises and equipment operating leases as well as two operating leases that expire at various dates ending in 2060 are payable over the next five years as follows:

(in 000's)	$
2003	4,044
2004	3,677
2005	3,295
2006	3,000
2007	2,870
Thereafter	161,558
	178,444

The Company has entered into various agreements for the purchase and development of properties. Should all conditions be met, expenditures in the next twelve months are estimated at $44.0 million.

The Company is committed to make the following payments under a ground lease to the year 2065 for land upon which one of their properties is situated.

To February 28, 2003	-	$445,000 per year
To February 28, 2005	-	$457,000 per year
To February 28, 2009	-	$469,000 per year
To February 28, 2011	-	$493,000 per year
Subsequent to February 2011	-	fair value of the land at February 2011 multiplied by 8.5% per annum

Within the normal course of business, the Company has commitments to complete servicing requirements with its residential land under development and income producing properties. These commitments have been guaranteed by irrevocable letters of credit amounting to $467,000 as at December 31, 2002 (2001 - $467,000).

(b) Contingencies

During the year, a judgment for $4.4 million plus interest and costs was awarded against the Company. The legal action pertained to a contract the Company had entered into in 1989. Previously the Company had recorded a provision of $1.5 million in the financial statements. In the current year the Company recorded a provision of $7.5 million, of which $4.6 million relates to interest expense and costs. The Company has issued irrevocable letters of credit amounting to $8.3 million as at December 31, 2002, as security, and has appealed the decision.

During 2000, an action was commenced by a developer against Morguard REIT and its trustees for approximately $22.7 million. This action relates to a property purchased from the developer in 1998. Morguard REIT has counterclaimed against the developer and another party. The outcome of the claims cannot be determined at this time. No provision for settlement of this claim has been included in Morguard REIT's accounts at this time. Morguard REIT is also seeking payment of a loan receivable from the developer of $1.3 million that was due in March 2001.

In addition, various other claims and legal proceedings have been asserted or instituted against the Company, including some of which demand large monetary damages or other relief which could result in significant expenditures. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. A provision for these expenditures has been recorded based on management's best estimate. However, should the claim be settled for amounts in excess of the established reserves, such costs will be charged to operations as incurred.

20. RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

(in 000's)	2002 $	2001 $
Amounts receivable		
Share purchase loans (a)	**1,514**	1,283
Employee loan (b)	**180**	-
Income from properties (c)	**107**	-
Other income (expense) (c)	**658**	-
Fees and other income		
Tri-White Corporation (d)	**600**	600

(a) Share purchase loan

Share purchase loans to officers of the Company of $1.5 million (2001 - $1.3 million) are outstanding as at December 31, 2002. These loans are repayable on demand, secured and non-interest bearing.

(b) Employee loan

The employee loan to an officer of the subsidiary of $180,000 (2001 - $nil) is outstanding as at December 31, 2002. This loan is repayable on demand, secured and bears an interest rate of 6% per annum.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(c) Income from properties

A company controlled by a director of RPCL paid, under the terms of its tenancy agreement, $107,000 (2001- $104,000) to lease a residential suite owned by the Company.

RPCL paid consulting fees of $658,000 to the company controlled by the same director of RPCL which are included in other income (expense).

(d) Tri-White Corporation ("Tri-White")

The Company provides Tri-White with managerial and consulting services for its business and the business of its subsidiaries. Mr. K. (Rai) Sahi is a significant shareholder of Tri-White through his holding company, Paros Enterprises Limited and is Chairman and Chief Executive Officer of the Company. Paros Enterprises Limited is a significant shareholder of the Company. The Company receives a management fee of $600,000 per annum from Tri-White, under a contractual agreement at market related prices.

21. CO-OWNERSHIP INTERESTS

The following amounts, included in these consolidated financial statements, represent the Company's proportionate share in co-ownership interests:

(in 000's)	2002 $	2001 $
Balance sheet		
Assets	108,272	122,721
Liabilities	99,245	122,082
Equity	9,027	639
Statement of operations		
Revenue	43,391	57,876
Expenses	34,465	49,636
Earnings from operations	8,926	8,240
Statement of cash flows		
Cash flows resulting from		
Operating activities	31,442	(296)
Financing activities	(5,057)	23,600
Investing activities	(19,055)	(2,832)

The Company is contingently liable for the other participants' share of incorporated and unincorporated co-ownerships and partnerships in which it participates. The other participants' share of the assets of the co-ownerships and partnerships is available for the purpose of satisfying such obligations. The carrying value of the assets of these co-ownerships exceeds the contingent liabilities.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's operations are subject to a number of risks and uncertainties, including, but not limited to, risks associated with the development of future properties, competition, the real estate markets and general economic conditions in which the Company competes, the availability and cost of financing and fluctuations in interest rates.

The Company does not acquire, hold or issue derivative financial instruments for trading purposes.

The Company is exposed to the following risks related to financial assets and liabilities:

(a) Interest rate risk

The Company minimizes its risk to unfavourable interest rate changes by ensuring that mortgage debt matures over a number of years. The Company also has outstanding bank loans, which would expose the Company to fluctuations in short-term interest rates.

Interest rate risk is minimized as debts are financed at fixed rates with maturities scheduled over a number of years (note 10). At December 31, 2002, 88.2% (2001 - 86.5%) of the Company's indebtedness for borrowed money was issued at fixed rates.

(b) Credit risk

The Company operates as an investor in real estate assets. As an investor, the Company is exposed to credit risk to the extent that its tenants may fail to meet their obligations under the lease agreements. This risk is alleviated by minimizing the amount of exposure the Company has to any single tenant ensuring a diversified tenant mix and purchasing property in several major geographic locations.

(c) Foreign currency risk

The Company has operations in the United States, which gives rise to a risk that its earnings and cash flows may be adversely affected by fluctuations in foreign exchange. On December 31, 2002, the remaining foreign operations were sold and as a result, as of January 1, 2003, the foreign denominated assets will be classified as integrated operations. The unrealized currency translation adjustments remaining will be recognized into income when the Company reduces its net investment in its foreign operations.

(d) Fair value

The fair value of cash and cash equivalents and marketable securities approximates their carrying value.

Amounts receivable, accounts payable and accrued liabilities, bank indebtedness and loans are also assumed to have a fair value that approximates their carrying value due to their short-term nature.

The fair value of mortgages payable on real estate assets has been determined by discounting the cash flows using current market rates of similar investments.

The fair value of investments having quoted market values and which are publicly traded on a recognized stock exchange are based on the quoted market prices.

23. SEGMENTED INFORMATION

The Company operates primarily in two operating segments, real estate and management and other operations. Real estate operations are defined to include property ownership and development. Management and other operations include property management, equipment leasing and distribution.

			2002			2001
	Real estate operations	Management and other operations	Total	Real estate operations	Management and other operations	Total
(in 000's)	$	$	$	$	$	$
Revenue	297,352	43,952	341,304	281,152	39,894	321,046
Earnings from operations before the undernoted	128,752	13,318	142,070	124,091	7,137	131,228
Amortization	13,303	827	14,130	12,951	1,034	13,985
Interest	64,538	78	64,616	61,185	72	61,257
Earnings before other income (expense), income taxes and minority interest	50,911	12,413	63,324	49,955	6,031	55,986
Interest and other	5,228	(7,372)	(2,144)	1,961	657	2,618
Cost of early settlement of mortgages	(258)	-	(258)	(3,206)	-	(3,206)
Net gain on sale of assets and investments	9,177	-	9,177	3,655	789	4,444
Earnings of equity-accounted investments	12,736	2,280	15,016	16,344	(560)	15,784
Write-down of assets and investments	(3,700)	(17,617)	(21,317)	-	-	-
Earnings from operations before income taxes and minority interest	74,094	(10,296)	63,798	68,709	6,917	75,626

Revenue from real estate assets is disclosed separately in the consolidated statements of earnings and retained earnings as "income from properties". Property management and other activities generate fee revenue in return for services provided. Revenue from these sources is included in "fees and other income" and "sales of condominiums and products". There are no significant inter-segment transactions.

	2002	2001
(in 000's)	$	$
Total assets		
Real estate operations	2,011,895	1,683,036
Management and other operations	65,235	73,484
	2,077,130	1,756,520

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management continues to focus its attention on the growth of its real estate operations. The existing real estate operations operate across four property types located in three major geographical locations across Canada. The Company operates to ensure an appropriate mix of property type and geographical location.

Additional information with respect to real estate assets is outlined below:

	2002			2001		
(in 000's)	Total revenue $	Net property income $	Real estate assets $	Total revenue $	Net property income $	Real estate assets $
Property type						
Office	46,422	21,864	322,937	42,185	20,431	186,864
Industrial	17,968	12,504	144,786	17,355	15,815	157,514
Retail	127,493	69,945	935,312	109,590	60,814	749,309
Residential	77,764	41,320	459,687	71,709	39,289	385,011
	269,647	145,633	1,862,722	240,839	136,349	1,478,698
Geographic						
Western	16,800	9,464	151,627	16,329	8,692	101,323
Prairies	74,269	33,399	367,590	54,957	31,960	308,116
Eastern	178,579	102,770	1,343,505	169,553	95,697	1,069,259
	269,648	145,633	1,862,722	240,839	136,349	1,478,698

Net property income represents income from properties, net of property operating expenses.

24. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2002 consolidated financial statements.

25. SUBSEQUENT EVENTS

On January 17, 2003, Residential Inc., purchased the remaining interests in Laurie Investments Limited for a total purchase price of $7.7 million. Residential Inc., now owns 100% of Laurie Investments Limited, whose assets include the properties under development, reported by the Company.

On February 13, 2003, Morguard REIT reached a $108.0 million agreement, which includes $71.0 million of mortgages carrying an average interest rate of 7.4% with an average remaining term of nine years, to acquire a portfolio of 11 retail, office and industrial properties, located in Calgary and Edmonton, Alberta. The purchase is currently slated to close at the end of March 2003.

On February 14, 2003, the Company entered into an agreement to purchase an additional 2.3 million common shares of RPCL at $1.65 per share having an aggregate purchase price of $3.8 million. The purchase will be funded through issuance of a note of $2.6 million, bearing interest at a rate of 6% per annum, compounded semi-annually, payable in equal quarterly installments of $238,203 and cash of $1.2 million. The transaction will close on March 14, 2003.

On February 21, 2003, RPCL entered into an agreement to borrow $44.0 million, bearing interest at 6.7%, secured by a first charge on RPCL's two office properties, and due in 2018. The funds will be used for general corporate purposes.

Integrated Design: Cameron Douglas Plus Associates Inc. 7578

CORPORATE DIRECTORY

BOARD OF DIRECTORS

James R. Connacher
Corporate Director

David A. King
Vice Chairman
Morguard Corporation
President
David King Corporation

Wayne M.E. McLeod
Corporate Director

George F. Michals
President
Baymont Capital Resources Inc.

Timothy R. Price
Chairman
Brascan Financial Corporation

K. (Rai) Sahi
Chairman & CEO
Morguard Corporation

O. Temple Sloan Jr.
Founder & Chairman
of General Parts, Inc.

Alex Taylor
Chairman
Enersource Corporation

Michel Vennat
President & CEO
Business Development
Bank of Canada

CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE

Alex Taylor
Chairman

David A. King

George F. Michals

AUDIT COMMITTEE

Wayne M.E. McLeod
Chairman

George F. Michals

Timothy R. Price

Michel Vennat

NOMINATING COMMITTEE

Michel Vennat
Chairman

James R. Connacher

K. (Rai) Sahi

PENSION PLAN COMMITTEE

David A. King
Chairman

Wayne M.E. McLeod

Frank Munsters

K. (Rai) Sahi

CORPORATE INFORMATION

Auditors
Ernst & Young LLP

Transfer Agents and Registrars of Common Shares
Computershare Trust Company

Bankers
Canadian Imperial
Bank of Commerce
Toronto Dominion Bank

Share Listing
Toronto Stock Exchange

Ticker Symbol
MRC

Registered Office
One University Avenue
Suite 1400
Toronto, Ontario M5J 2P1
Tel: (416) 862-3800
Fax: (416) 367-6890
Website: www.morguard.com

EXECUTIVE DIRECTORY

K.(Rai) Sahi
Chairman and CEO

David A. King
Vice Chairman

Bart S. Munn
Vice President, Finance & CFO

Eugene N. Hretzay
Corporate Counsel & Secretary

Frank Munsters
Vice President, Credit & Banking

MORGUARD REAL ESTATE INVESTMENT TRUST

David A. King
Chairman

William Kennedy
President & COO

K.(Rai) Sahi
Chief Executive Officer

MORGUARD INVESTMENTS LIMITED

Stephen Taylor
President & COO

MORGUARD RESIDENTIAL INC.

K. (Rai) Sahi
Chairman & CEO

Tim Walker
Chief Financial Officer

REVENUE PROPERTIES COMPANY LIMITED

Antony K. Stephens
President

INVESTOR RELATIONS

Bart S. Munn
Tel: (416) 862-3770
Fax: (416) 862-3799
E-mail: bmunn@morguard.com

*Coquitlam Centre
Coquitlam, B.C.*

*TeleSat Canada
Ottawa, Ontario*

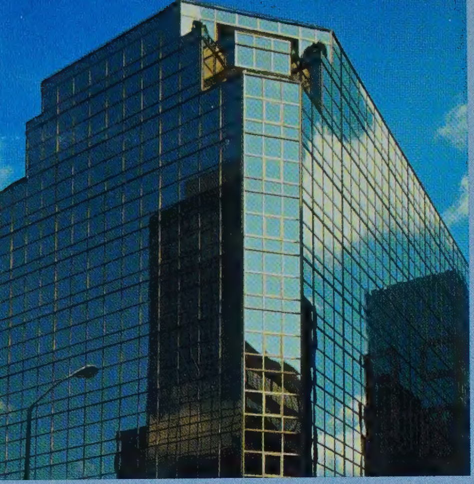
*Red Deer Centre
Red Deer, Alberta*

SHAREHOLDER DIVIDEND REINVESTMENT PLAN

Registered holders of common shares of the Company, wishing to purchase additional common shares, may participate in a convenient investment plan. Quarterly dividends may be reinvested automatically to purchase additional common shares, at 95% of the simple average of the closing price for common shares of the Company on The Toronto Stock Exchange, for the twenty trading days immediately preceeding a dividend date, without paying any administration fees, brokerage charges or commissions.

ADDITIONAL INFORMATION MAY BE OBTAINED FROM:

Dividend Reinvestment Services: Computershare Trust Company of Canada, 100 University Avenue, Toronto, Ontario M5J 2Y1 – Tel: (416) 1-800-663-9097 – E-mail: caregistryinfo@computershare.com – Website: www.morguard.com



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